

U.S. Department of the Treasury



Community Development Financial Institutions Program

**2004 Financial Assistance
Component**

**CDFI Institute - February 5,
2004**

CDFI
fund

What we will cover in this session

- Quick facts about the TA Component**
- FY 04 FA component :**
 - program priorities**
 - application changes**
 - review criteria**
 - key dates and contact information**

Note: Certification and an overview of the CDFI Fund are not covered in this session.

Technical Assistance Component CDFI Program

Purpose

Provide grants to CDFIs and CDFIs in formation to acquire technology, training and outside expertise to help them better serve their target markets.

Key facts

- 2 year rolling process (through May 31, 2004)
- Over \$9 million still available
- Simplified application
- Applicants need to be up to date on reports and drawing down prior awards
- Paper application (fillable PDF is available)

Uses of TA and Examples

Consulting Services

- website design, product research

Staff Salary- one time uses

- update underwriting manual, develop training materials
- some other uses for start-ups

Technology

- update computer hardware, upgrade phone system

Training

- New staff training on loan products, board training on CDFI operations

Technical Assistance - Changes Ahead

- 2004-2005 TA focused on technology upgrades
- Evaluation of TA Program planned FY 2004
- New Training Contracts planned FY 2004-2005
- Restructured and revised program planned for FY 2005-2006

2004 Financial Assistance Component (FA) -- CDFI Program

Purpose

Provide financial and technical assistance to CDFIs that have comprehensive business plans for financing activities that positively impact their communities.

Provides matching capital to CDFIs that show that they have the financial and managerial capacity to serve target markets, be viable financial institutions, and effectively use and leverage CDFI Fund dollars.

Funding availability for FY 2004:
\$45 million



Programmatic Priorities

Priority 1

- Affordable Housing in Housing Hot Zones and/or for Other Targeted Populations
- Economic Development (other than Community Development Support) in Economic Development Hot Zones and/or for Other Targeted Populations
- Community Development Financial Services in Economic Development Hot Zones and/or Housing Hot Zones

Programmatic Priorities

Priority 2

- Affordable Housing in Economic Development Hot Zones and/or other Investment Areas, and/or for Low-Income Targeted Populations
- Economic Development (other than Community Development Support) in other Investment Areas and/or for Low-Income Targeted Populations
- Community Development Financial Services for Low-Income Targeted Populations and/or Other Targeted Populations

Programmatic Priorities

Priority 3

- Community Development Financial Services in Investment Areas (other than Hot Zones)
- Community Organization Support

Priority 4

- Other activities as requested by the applicant and deemed appropriate by the Fund

What is a Hot Zone – Economic Development

- Subset of CDFI Program eligible Investment areas that have higher levels of distress:
 - unemployment rate ≥ 1.5 x national average
- Metropolitan areas (census tract):
 - poverty rate $\geq 20\%$, median family income \leq below 80 % of the area median income AND
 - population $\geq 1,500$
- Non-metropolitan areas (census tract or county):
 - poverty rate $\geq 20\%$, or median family income $\leq 80\%$ of the statewide or national non-metro MFI, AND
 - population ≥ 500 .

What is a Hot Zone – Affordable Housing

Subset of CDFI Program eligible Investment Areas that have higher levels of distress:

- Metropolitan census tracts
 - population $\geq 1,500$ AND
 - median family income $\leq 80\%$ of the metro area median income
- Non-metro tracts or counties with population
 - population ≥ 500 AND
 - median family income $\leq 80\%$ of the statewide non-metro median family income or the national non-metropolitan median family income
- Both:
 - Median monthly rental housing cost $> 30\%$ of gross monthly income of a low-income household, and poverty rate $\geq 20\%$,
OR
 - Median monthly homeowner cost $> 30\%$ of the gross monthly income of a low-income household

Other Hot Zone facts

- All Native American Areas that are Investment Areas qualify as both Economic Development and Housing Hot Zones
- All Hot Zones may be found on the upgraded, user-friendly mapping feature on the Fund's website – Community Information Mapping System (CIMS)

In case you missed 2003...

- Electronic application
- Application questions tailored to particular products
- Use of 2000 Census data to define markets
- Need to demonstrate capital need
- Demonstrate high level of match in-hand or committed
- Scoring penalties for non-compliance with prior awards
- Financial and portfolio quality benchmarks

Key elements in 2004 - Eligibility

- Must be a certified CDFI (expiration on or after 12/31/04) OR
- submit application for CDFI certification by 3/15/04
-- must be certifiable at time of application
- Prior awardees and Affiliates (under any Fund program)
 - all reports current as of the application deadline
 - not barred from applying
 - not terminated in default in FY 2003 (10/1/02-9/30/03)
 - no undisbursed balances > 5% of outstanding awards

Applicant Categories

Category I: Small and Emerging CDFIs Assistance (SECA)

1. Total assets as of 12/31/03 :

- Insured Depository Institutions & Depository Institution Holding Companies < \$100 million
- Insured Credit Unions < \$10 million
- Other CDFIs < \$5 million

OR

2. Did not begin operations prior to April 15, 2001

AND

- Prior CDFI Program funding \leq \$300,000 total

*Can request \leq \$300,000 total

Applicant Categories

Category II: Core & Sustainable CDFIs Assistance (Core)

- total assets as of December 31, 2003 of:
 - Insured Depository Institutions & Depository Institution Holding Companies <\$500 million
 - Insured Credit Unions and other CDFIs < \$25 million

*May request up to \$1 million total

Applicant Categories

Category III: Financial Leverage and Market Expansion Assistance

Total assets as of December 31, 2003:

- Insured Depository Institutions and Depository Institution Holding Companies \geq \$500 million
- Insured Credit Unions and other CDFIs \geq \$25 million

*May request up to \$2 million total

About the Categories

- An applicant requesting an amount higher than the limit for the category will be considered under the higher category.
- Category I applicants will be scored under distinct evaluation criteria.
- Category III applicants will be evaluated on their plans to leverage greater private sector resources in support of their lending and investing activities (such as through funding a loan loss reserve or credit enhancement), or develop and effectively provide innovative financial products and services that address the capital needs of markets that are particularly underserved by traditional financial service institutions.

Addressing Comments from 2003

- Each unsuccessful 2003 applicant received written feedback on their application.
- This overview was made public at the Fund's October 2003 Advisory Board meeting.

Criterion (Percent Failure in 2003)	Reason for Criterion	2004 Approach
Ineligible (12%)	<ul style="list-style-type: none"> • Submission of reports is an indicator of compliance with Fund policies and enables evaluation of past performance. • Re-certification allows the Fund to determine that the applicant is a CDFI, and determine market based on 2000 Census data. 	<ul style="list-style-type: none"> • Contact information for compliance questions provided. • Certification period extended for a number of certified CDFIs.
Capital Need (33%)	Verify applicant has need for and can quickly deploy capital in target market.	<ul style="list-style-type: none"> • Variety of charts to fit various institution types and needs for capital. • Application provides clearer definitions and instructions
Management & Underwriting (36%)	Determine that CDFI has sound management policies, appropriate staff, and good portfolio quality.	<ul style="list-style-type: none"> • Standards (MPS) made public. • Standards set based on more recent data. • Provide opportunity to explain MPS failures.

Addressing Comments from 2003 Application

Criterion (Percent Failure)	Reason for Criterion	2004 Response
Financial Health (18%)	Determine health of CDFI from key ratios.	<ul style="list-style-type: none"> • MPS made public. • MPD set based on more recent data. • Provide opportunity to explain failures to meet MPS.
Financial Sustainability & Matching Funds (16%)	<ul style="list-style-type: none"> • Determine likely financial health. • Ensure match is eligible so that funds may be quickly deployed. 	<ul style="list-style-type: none"> • Section combined with Financial Health. • See slide on Matching Funds
Market Need & Community Development Performance (47%)	<ul style="list-style-type: none"> • Determine market need. • Evaluate track record and projections toward meeting Fund's priorities. • Evaluate quality of products and strategy to address market need. 	<ul style="list-style-type: none"> • Provide for wider range of activity types and impacts. • Rank rather than threshold score on priority activities. • Funding of non-priority activities if funds are available.

Other 2003 Concerns and 2004 Responses

- Not enough time to complete application/
application not user-friendly
 - Changes to enhance ease of use/provide clearer guidance
 - More flexible questions to allow range of answers
 - Due 2 months from the release of application
- Hot Zones under-represented rural areas
 - Hot Zones will be designated at either the tract or county level for rural areas
- Elimination of out-migration and population loss eligibility criteria impacts rural areas
 - Reintroduce out-migration and population loss as eligible indicators of distress (through proposed rule revision)

Treatment of Programmatic Priorities

- Highest overall score and funding priority given to Priority 1 activities.
- Applicants with lower priority activities will be considered for an award, assuming funding availability.
- The Fund expects awards to be made to well managed and financially sound CDFIs engaging in activities outside of Priority 1.
- An applicant may be considered under multiple categories for different activities and markets served.

Treatment of Non-compliance

- Only last 2 years (2002-2003) will be evaluated.
- Applicants will lose points for
 - late reporting
 - non-compliance with performance goals and financial soundness covenants
 - late payments on loans from the Fund
- Points will be deducted from overall score, not from a specific section

Matching Funds

Category I applicants:

- 30% of requested matching funds in hand or firmly committed at the time of application (April 15, 2004).

Categories II and III applicants:

- 100% of matching funds in hand or firmly committed at the time of application (April 15, 2004).
- Commitments may be contingent upon receipt of funding from the CDFI Fund.

Matching Funds

All applicants:

- Eligible Matching Funds window begins January 1, 2002.
- All Matching Funds must be in-hand by April 30, 2005.
- Applicants that have less than the required level of match will only be considered for the amount of funding that corresponds to the matching funds evidenced.
- Applicants demonstrating no match in hand or committed at the time of application will be rejected as ineligible.

Capital Need

- Capital Need will be determined based on institution type and use of funding requested
 - Loan/investment capital or loss reserves
 - Development Services
 - Capital reserves (for depository institutions)
 - Financial Services (for depository institutions)
- If the worksheet does not show Capital Need, you may provide an explanation of why you have Capital Need despite the worksheet finding.

Evaluation Criteria – Market Need & Community Development Performance

- 50% of Score
- Market need: understanding of the market context and customers, extent of economic distress, need and demand for financial products and services.
- Programmatic Priorities: historic and projected targeting of activities to Programmatic Priorities (amount and number of transactions and projected impacts).
- Product design and strategy: flexibility and appropriateness of the products to the market served, assessment of the delivery strategy (including coordination with other resources), and likely effectiveness of the proposed use of Fund dollars.

Evaluation Criteria – Financial Health & Viability

- 25% of score
- Uses Minimum Prudent Standards to determine the applicant's financial health (last 3 years) and projected financial position (2004-2007) for the following:
 - Capital -Earnings -Self-Sufficiency
 - Deployment -Liquidity
- Applicants that do not meet any standard may explain why they still believe they are financially sound.
- Do not need to pass all MPS to receive a passing score in this section.

Evaluation Criteria – Management & Underwriting

- 25% of score
- Portfolio quality: Based on MPS for: portfolio at risk, losses, and loan loss reserves; equity investors have separate criteria
- Management controls: underwriting, portfolio management, and financial management policies
- Management team: capacity, skills and experience of the applicant's senior management, staff and governing board as appropriate to deliver the proposed products and services and manage compliance with the Fund's reporting requirements.

Review Process

- Staff review for eligibility, matching funds and capital need.
- Staff and outside reviewers score based on evaluation criteria.
- Staff follow up on issues, may contact for more information.
- Staff recommendation to selecting official.
- Award notifications (notice of award) expected by September 30.
- SECA applicants may be considered for TA, if declined under FA Component.
- Performance goals and other requirements negotiated and funds disbursed by early 2005.

Program Interactions

Applicants (or Affiliates) may apply for and receive funding under the following programs, as long as the funding is for different activities (as determined by the Fund)

- New Markets Tax Credit Allocation
- Bank Enterprise Award (subject to limitations described in the BEA Program regulations)
- Technical Assistance Award under the TA, Native American TA or Native American CDFI Development programs
 - Note: A CDFI requesting TA to upgrade computer hardware, software, and internet connectivity is encouraged to do so as part of its FA application
- An applicant cannot receive Financial Assistance funding under both the FA Component and the Native American CDFI Assistance Program

Deadlines: FA Component

- Application for Certification if not currently certified: March 15, 2004
- Request paper application: March 31, 2004
- FA application: **Approx. 60 days from application launch (4/28/04)**
- Paper attachments to electronic application: **(3-5 business days from deadline)**

Contacting the Fund

- All program information is posted to:
www.cdfifund.gov
- Program/Policy Questions
 - Cdfihelp@cdfi.treas.gov
 - Phone: (202) 622-6355
- Compliance/Prior Award Questions
 - gmc@cdfi.treas.gov
 - Phone: (202) 622-8226
- Technology Questions
 - See NOFA and Website
- *All questions relating to the 2004 FA application must be made by: 5 pm Eastern Time on April <<.

Want to know more?

- In person information sessions:
 - March 8 – Los Angeles
 - March 8 – Chicago
 - March 9 – Dallas
 - March 10 – Washington, D.C.
- Video teleconference to be announced (mid-March)
 - HUD offices nationwide
 - Accessible from the internet
- Check our website to register and learn about other opportunities

Summary

- 2004 FA Component opens soon
- \$45 million available
- Encourage electronic application
- Encourage activity in Hot Zones and other Programmatic Priorities
- Significant changes from 2003 to make the process more flexible and the application more user-friendly
- Check the website for more details:
www.cdfifund.gov